

SCOMM

93:8

DRAFT October 25, 1993**PROPOSED CS FOR HOUSE BILL NO. 199 (O&G)****A BILL
FOR AN ACT ENTITLED**

"An Act relating to the exploration and production of oil and gas and related hydrocarbons, to oil and gas exploration licenses and to oil and gas leases in certain areas of the state and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

1 Section 1. AS 38 is amended by adding new sections to read:

2
3 **ARTICLE 5A. OIL AND GAS EXPLORATION LICENSES; LEASES.**

4
5 **Sec. 38.05.131. APPLICABILITY; DETERMINATION;**
6 **REGULATIONS.** (a) Unless specifically provided otherwise in AS
7 38.05.132 - 38.05.134, the provisions of AS 38.05.005 - 38.05.040,
8 38.05.180, 38.05.182 - 38.05.184, and 38.05.920 - 38.05.990 apply to the
9 issuance of oil and gas exploration licenses and leases under AS
10 38.05.132 - 38.05.134.

11
12 (b) The provisions of AS 38.05.131 - 38.05.134 do not apply to land

13
14 (1) north of the Umiat baseline; and

15
16 (2) in the vicinity of Cook Inlet that is within the area bounded
17 by

18
19 (A) the north boundary of Township 17 North, Seward
20 Meridian;

21
22 (B) the Seward Meridian;

23
24 (C) the south boundary of Township 7 South, Seward

1 Meridian; and

2
3 (D) the west boundary of Range 19 West, Seward
4 Meridian.

5
6 (c) The commissioner shall make preliminary written determinations
7 of the state land that may be subject to the provision of AS 38.05.132.
8 The determinations shall be given public notice using the methods
9 described in AS 38.05.945(b). After completion of the comment period
10 and evaluation of the comments received, the commissioner shall
11 issue a written determination of the state land that is subject to the
12 provisions of AS 38.05.132.

13
14 (d) The commissioner may adopt regulations necessary to implement
15 AS 38.05.131 - 38.05.134.

16
17
18 Sec. 38.05.132. OIL AND GAS EXPLORATION LICENSE. (a)
19 To encourage exploration for oil and gas on state land, the
20 commissioner may issue oil and gas exploration licenses.

21
22 (b) An oil and gas exploration license issued under this section
23 gives the licensee:

24
25 (1) the exclusive right to explore, for a term not to exceed
26 10 years, for deposits of oil and gas on unleased state land described
27 in the exploration license unless the land is earlier relinquished,
28 removed, or deleted under (d) of this section; and

29
30 (2) the option to convert the exploration license for all or
31 part of the state land, except the land that is deleted or removed
32 from the land described in the exploration license under (d) of this
33 section, into an oil and gas lease upon fulfillment of the work
34 commitments contained in the exploration license.

35
36 (c) An exploration license awarded under this section

37
38 (1) is not subject to the acreage limitations imposed by AS
39 38.05.140(c) or 38.05.180(m);
40

1 (2) may cover an area of not less than 20,000 acres nor
2 contain more than 500,000 acres, that must be reasonably compact
3 and contiguous;
4

5 (3) must be conditioned upon an obligation to perform a
6 specified work commitment, in total for the term of the license,
7 expressed in dollars of direct exploration expenditures;
8

9 (4) must require that a minimum of 25-percent of the
10 specified work commitment must be completed on or before the
11 fourth anniversary of the effective date of the issuance of the
12 exploration license. Failure to meet this requirement shall result in
13 forfeiture of the license.
14

15 For the purpose conditioning a license as required by paragraph (3),
16

17 (A) "direct exploration expenditure" means cash
18 expenses undertaken in performance of a specified work
19 commitment under the provisions of AS 38.05.131 - 38.05.134
20 and necessarily incurred by the licensee in the permitting,
21 mobilization, conducting, demobilization, and evaluation of
22 geophysical and geological surveys, or the drilling, logging,
23 coring, testing, and evaluation of exploratory oil and gas
24 wells, the term:
25

26 (i) includes direct labor costs, including the cost of
27 benefits for employees directly associated with the work
28 commitment programs, the cost of renting or leasing
29 equipment from parties not affiliated with the licensee,
30 the reasonable costs of maintaining and operating
31 equipment, payments to consultants and independent
32 contractors not affiliated with the licensee, and costs of
33 materials and supplies;
34

35 (ii) does not include noncash expenses such as
36 depreciation and reserves, interest or other costs of
37 borrowed funds, return on investment, overhead
38 insurance or bond premiums, or any other expense that is
39 unreasonable or that the licensee has not incurred to
40 satisfy the licensee's work commitment;

1
2 (B) "work commitment" includes the drilling of one or
3 more exploration wells or the gathering of data as described in
4 4(A), or both;

5
6 (5) must be conditioned upon the posting of a bond or
7 other security acceptable to the commissioner in favor of the state
8 and subject to the following requirements:

9
10 (A) the bond or other security must be renewed annually;

11
12 (B) the annual bond or other security shall be calculated
13 as: the entire work commitment expressed in dollars, less the
14 cumulative expenditures as of the last day of the most recent project-
15 year, divided by the number of years remaining in the term of the
16 exploration license;

17
18 (6) is subject to an annual review and revocation if the
19 commissioner determines that the licensee has failed to provide or
20 maintain in effect the bond or other surety required by (5) of this
21 subsection;

22
23 (7) must be conditioned upon payment of a nonrefundable
24 oil and gas exploration license fee, the amount of which may be set
25 by the commissioner, provided, however, such fee may not be more
26 than \$1 per acre or fraction thereof for each acre of land that is
27 subject to the exploration license;

28
29 (8) must be conditioned upon an agreement that
30 exploration expenditures are subject to audit by the commissioner.

31
32 (d) The area within an exploration license awarded under this
33 section may be relinquished, removed, or deleted from the license.
34 Relinquishment, removal, or deletion of any area from the state land
35 described in the exploration license terminates the licensee's rights
36 under AS 38.05.131 - 38.05.134 in the area that is relinquished,
37 removed or deleted. A relinquishment, removal, or deletion of a
38 portion of the area described in the exploration license must be in
39 areas that are reasonably compact and contiguous. The areas
40 relinquished from the state land described in the exploration license

1 shall be areas identified by the licensee but, if the licensee fails to
2 identify sufficient area, the commissioner may identify any
3 additional acreage required to be removed or deleted from the area
4 then under license to meet the requirements of this subsection.
5 Unless, on or before the fourth anniversary of the effective date of
6 the issuance of the exploration license, 50-percent of the approved
7 work commitment, expressed in dollars of expenditure, has been
8 completed, then,
9

10 (1) 25 percent of the area must be relinquished, removed,
11 or deleted on the fourth anniversary of the effective date of the
12 issuance of the exploration license;
13

14 (2) an additional 10 percent of the remaining acreage
15 must be removed or deleted on each of the succeeding anniversaries
16 of the effective date of the issuance of the exploration license to a
17 maximum of 50% of the original license acreage.
18

19 (e) If, immediately before the beginning of the period for
20 annual review of the bond or other security under (c)(5) of this
21 section, the licensee fails to provide or maintain in effect the bond or
22 other security required by (c) of this section for the period covered by
23 the annual renewal and the commissioner revokes the exploration
24 license, the bond or other security then in effect for the licensee's
25 obligations under the exploration license is forfeited to the state.
26

27 Sec. 38.05.133. LICENSE PROCEDURES. (a) The procedures
28 in this section apply to the issuance of an oil and gas exploration
29 license under AS 38.05.132.
30

31 (b) The licensing process is initiated by the commissioner
32 preparing, or a prospective licensee submitting to the commissioner,
33 a proposal that identifies a specific area to be subject to the
34 exploration license, proposes specific minimum work commitments,
35 and states that the licensee has met the minimum qualifications for a
36 licensee as established by regulations adopted by the commissioner. A
37 prospective licensee may initiate a proposal only in response to a call
38 for proposals by the commissioner or during a period specified in
39 regulation adopted by the commissioner. The regulations must
40 provide for at least one period for that purpose during each calendar

1 year.

2
3 (c) If the commissioner initiates the licensing process under (b)
4 of this section, the commissioner shall publish notice of the
5 commissioner's proposal in order to solicit comments and competing
6 proposals.

7
8 (d) Within 30 days after receipt of a proposal from a
9 prospective licensee under (b) of this section, the commissioner shall
10 either reject it in a written decision or give public notice of the intent
11 to evaluate further the acceptability of the proposal. The
12 commissioner shall solicit comments on a proposal for which public
13 notice is given under this subsection, and shall request competing
14 proposals.

15
16 (e) The commissioner may make a written request to a
17 prospective licensee for additional information on the prospective
18 licensee's proposal. The commissioner shall keep confidential
19 information described in AS 38.05.035(a)(9) that is voluntarily
20 provided, and for which the applicant has made a written request
21 that such information remain confidential.

22
23 (f) After considering proposals not rejected under (d) of this
24 section and public comment on those proposals, the commissioner
25 shall issue a written finding addressing all matters set out in AS
26 38.05.035(e) and (g), except for AS 38.05.035(g)(1)(K). If the finding
27 concludes that the state's best interests would be served by issuing an
28 oil and gas exploration license, the finding must (1) describe the
29 limitations, stipulations, conditions, or changes from the initiating
30 proposal or competing proposals that are required to make the
31 issuance of the exploration license conform to the best interests of
32 the state, and (2) if only one proposal was submitted, identify the
33 prospective licensee whom the commissioner finds should be issued
34 the exploration license. The commissioner shall attach to the finding
35 a copy of the exploration license to be issued and the form of lease
36 that will be used for any portion of the exploration license area
37 subsequently converted to an oil and gas lease under AS 38.05.134.

38
39 (g) If only one prospective licensee submits a proposal and the
40 finding under (f) of this section concludes that an exploration license

1 should be issued to that prospective licensee, the prospective licensee
2 has 30 days after issuance of the finding within which to accept or
3 reject the issuance of the exploration license, as limited or
4 conditioned by the terms contained in the finding. The exploration
5 license to be issued and the form of lease that will be used must be
6 attached to that finding.
7

8 (h) If competing proposals are submitted, and the
9 commissioner's finding under (f) of this section concludes that an oil
10 and gas exploration license should be issued, the commissioner shall
11 issue a request for competitive sealed bids, under procedures
12 adopted by the commissioner by regulation, to determine which
13 prospective licensee should be issued the exploration license. The
14 finding provided to the prospective licensees under (f) of this section
15 must contain notice that (1) the commissioner intends to request
16 competitive sealed bids, (2) a prospective licensee who intends to
17 participate in the bidding must notify the commissioner in writing by
18 the date specified in the notice, and (3) a prospective licensee's notice
19 of intent to participate in the bidding constitutes acceptance of
20 issuance of the exploration license, as limited or conditioned by the
21 terms contained in the finding and by the exploration license to be
22 issued and the form of lease to be used if the prospective licensee is
23 the successful bidder. The successful bidder is the prospective
24 licensee who submits the highest bid in terms of the minimum work
25 commitment dollar amount.
26
27

28 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee
29 requests and the commissioner determines that the work
30 commitment obligation set out in an oil and gas exploration license
31 issued under AS 38.05.132 has been met, the commissioner shall
32 convert to one or more oil and gas leases all or part, as the licensee
33 may indicate, of the area described in the exploration license that
34 remains after relinquishments, removals, or deletions required by AS
35 38.05.132(d). A lease issued under this section
36

37 (1) is subject to the acreage limitations imposed by AS
38 38.05.140(c);
39

40 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

1
2 (3) must be conditioned upon a royalty in amount or value
3 of not less than 12.5 percent of production;
4

5 (4) must include an annual rent of \$3 per acre or fraction
6 of an acre initially paid to the state at inception of the lease and
7 payable annually after that until the income to the state from royalty
8 under that lease exceeds the rental income to the state under that
9 lease for that year; and
10

11 (5) is subject to other conditions and obligations that are
12 specified in the lease.
13
14

15 * Sec. 1. AS 38.05.135(a) is amended to read:
16

17 (a) Except as otherwise provided, valuable mineral deposits in
18 land belonging to the state shall be open to exploration,
19 development, and the extraction of minerals. All land together with
20 tide, submerged, or shoreland, to which the state holds title to or to
21 which the state may become entitled, may be obtained by permit or
22 lease for the purpose of exploration, development, and the
23 extraction of minerals. Except as specifically limited by AS 38.05.131
24 - 38.05.181 land may be withheld from lease application on a first-
25 come, first-served basis, and offered only on a competitive basis
26 when determined by the commissioner to be in the best interests of
27 the state. In unproved areas, the commissioner may offer additional
28 incentives, including a reduction of royalty to a minimum of five
29 percent in the case of oil and gas, and other terms in and granting a
30 permit or lease for exploration and development whenever it
31 appears to be in the best interests of the state to do so.
32
33
34
35

36 * Sec. 2 AS 38.05.180(d) is amended to read:
37

38 The commissioner may issue oil and gas leases in an area that
39 has not been included in a leasing program submitted, in accordance
40 with (b) of this section, to the legislature if the land to be leased:

1
2 (1) was previously subject to a valid state or federal oil
3 and gas lease;
4

5 (2) is contiguous to land already under state, federal or
6 private lease and the commissioner makes a written finding, after
7 hearing, that leasing of the land would result in a substantial
8 probability of early evaluation and development of the land to be
9 leased;
10

11 (3) is adjacent to land owned or controlled by another
12 party on which a discovery of commercial quantities of oil or gas has
13 been made, and the commissioner finds, after hearing, that there is a
14 reasonable probability that the land to be leased contains oil or gas in
15 communication with oil or gas discovered on the land of the other
16 party;
17

18 (4) is adjacent to land included in the federal five-year
19 Outer Continental Shelf leasing program under 43 U.S.C. 1344, and
20 the commissioner makes a written finding, after hearing, that
21 coordinated or simultaneous leasing with the federal government is
22 in the public interest; or
23

24 (5) is the subject of an oil and gas exploration license
25 under AS 38.05.131 - 38.05.134.
26

27
28 * Sec. 3. AS 38.05.180(f) is amended to read:
29

30 (f) Except as provided by AS 38.05.131 - 38.05.134 the
31 commissioner may issue oil and gas leases on state land to the
32 highest responsible qualified bidder determined by competitive
33 bidding under regulations adopted by the commissioner. Bidding
34 may be by sealed bid or according to any other bidding procedure the
35 commissioner determines is in the best interests of the state.
36 Whenever, under any of the leasing methods listed in this subsection,
37 a royalty share is reserved to the state, it shall be delivered in
38 pipeline quality and free of all lease or unit expenses, including but
39 not limited to separation, cleaning, dehydration, gathering, salt
40 water disposal, and preparation for transportation off the lease or

1 unit area. Following a pre-sale analysis, the commissioner may
2 choose one of the following leasing methods:

3
4 (1) a cash bonus bid with a fixed royalty share reserved to
5 the state of not less than 12.5 [12 1/2] percent in amount or value of
6 the production removed or sold from the lease;

7
8 (2) a cash bonus bid with a fixed royalty share reserved to
9 the state of not less than 12.5 [12 1/2] percent in amount or value of
10 the production removed or sold from the lease and a fixed share of
11 the net profit derived from the lease of not less than 30 percent
12 reserved to the state;

13
14 (3) a fixed cash bonus with a royalty share reserved to the
15 state as the bid variable but no less than 12.5 [12 1/2] percent in
16 amount or value of the production removed or sold from the lease;

17
18 (4) a fixed cash bonus with a share of the net profit
19 derived from the lease reserved to the state as the bid variable;

20
21
22 (5) a fixed cash bonus with a fixed royalty share reserved
23 to the state on not less than 12.5 [12 1/2] percent in amount or value
24 of the production removed or sold from the lease with the share of
25 the net profit derived from the lease reserved to the state as a bid
26 variable;

27
28 (6) a cash bonus bid with a fixed royalty share reserved to
29 the state based on a sliding scale according to the volume of
30 production or other factor but in no event less than 12.5 [12 1/2]
31 percent in amount or value of the production removed or sold from
32 the lease;

33
34 (7) a fixed cash bonus with a royalty share reserved to the
35 state based on a sliding scale according to the volume of production
36 or other factor as the bid variable but not less than 12.5 [12 1/2]
37 percent in amount or value of the production removed or sold from
38 the lease.

39
40 * Sec. 4. AS 38.05.945(a) is amended to read:

1
2 (a) This section establishes the requirements for notice given by
3 the department for the following actions:
4

5 (1) classification or reclassification of state land under AS
6 38.05.300 and the closing of land to mineral leasing or entry under AS
7 38.05.185;
8

9 (2) zoning of land under applicable law;
10

11 (3) a decision under AS 38.05.035(e) or 38.05.132
12 -38.05.134 regarding the sale, lease or disposal of an interest in state
13 land or resources;
14

15 (4) a competitive disposal of an interest in state land or
16 resources after final decision under AS 38.05.035(e);
17

18 (5) a public hearing under AS 38.05.856(b);
19

20 (6) a preliminary finding under AS 38.05.035(e) and
21 38.05.855(c) concerning sites for aquatic farms and related
22 hatcheries.
23
24
25

26 *Sec. 5. ADDITIONAL EXCLUDED AREA. In addition to the area
27 designated in AS 38.05.131(b), added by sec.1 of this Act, the provisions of
28 AS 38.05.131 - 38.05.134, added by sec.1 of this Act do not apply to land
29 within proposed Competitive Oil and Gas Lease Sales 80, 87, and 88, as
30 the area to be offered in each of those proposed competitive oil and gas
31 lease sales was delineated in the Five-Year Oil and Gas Leasing Program
32 prepared by the Department of Natural Resources and dated January
33 1993. However, the exclusion of the land is any one of those lease sales
34 that is required by this section ceases on the date the land described in the
35 lease sale is first offered for competitive oil and gas leasing under AS
36 38.05.180, and that the land is thereafter subject to the provisions of AS
37 38.05.131 -38.05.134, added by sec. 1 of this Act.
38

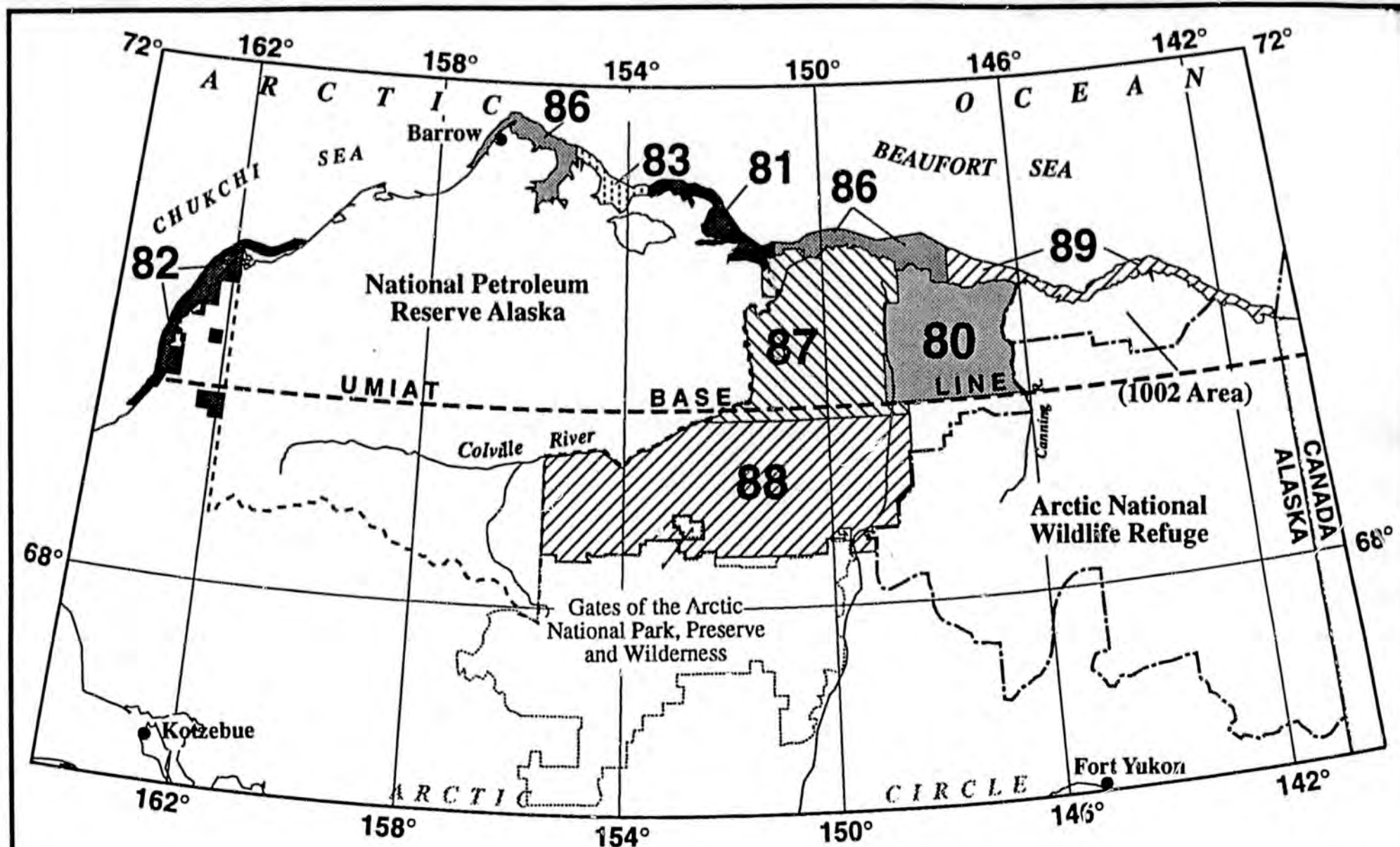
39
40 * Sec. 6. REGULATIONS. The commissioner of natural resources may

1 proceed to adopt regulations necessary to implement AS 38.05.131
2 -38.05.134, added by sec.1 of this Act. The regulations take effect under AS
3 44.62 (Administrative Procedure Act), but not before the effective date of
4 secs. 1 - 9 of this Act.
5

6 * Sec. 7. AS 38.05.020(b)(5) is amended to read:
7

8 (5) notwithstanding the provisions of any other section of this
9 chapter, grant an extension of the time within which payments due on any
10 license or lease or sale of state land, minerals, or materials may be made,
11 including payment of rental and royalties, on a finding that compliance
12 with the requirements is or was prevented by reason or war, riots, or acts
13 of God;
14

15
16
17 * Sec. 8. Section 6 of this Act takes effect immediately under AS
18 01.10.070(c).



North Slope Areas Proposed For Leasing

Sale	Date
80	11-94



Sale	Date
81	4-95
82	7-95
83	11-95



86	11-96
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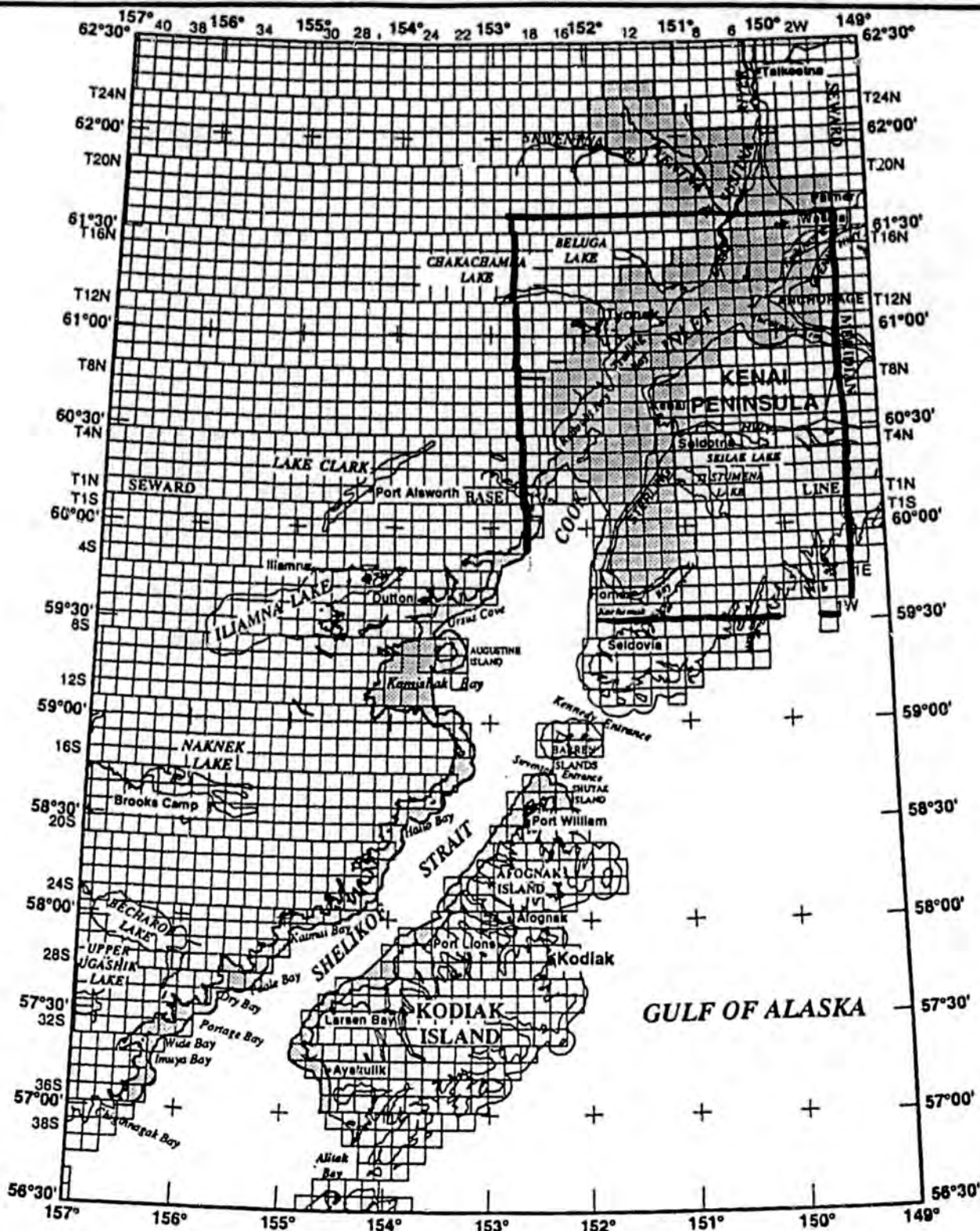
Sale	Date
87	4-97
88	7-97
89	11-97



Scale 1: 5,000,000 Approx.

0 100 200 Miles

11/93



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS
PROPOSED OIL AND GAS LEASE SALE 85
COOK INLET / SHELIKOF STRAIT

SCALE 1: 3,500,000 ONE INCH = 56 MILES approx.

0 50 100 200 Miles

DIRECTOR, DIVISION OF OIL AND GAS

JAMES E. EASON *James E. Eason*

PETRO. GEOPHYSICIST,
JAMES HANSEN *James Hansen*

DRAWN

BY: M.P. &
O.D.S.

CHECKED
BY: *[Signature]*

DATE APPROVED

12-21-92

BASE MAP: TRANSPOSED FROM
U.T.M. PROJECTIONS BY U.S.G.S.
REDRAWN IN AUTOCAD AND
CLARIS CAD.

NOTE: NO DECISION HAS YET
BEEN MADE ON WHETHER THE
STATE WILL HOLD THIS LEASE
SALE. THE STATE IS GATHERING
SOCIAL ENVIRONMENTAL &
ECONOMIC INFORMATION (IN)
WHICH TO BASE A DECISION.



Industry leaders agree on oil exploration plan

By Tim Bradner
Alaska Journal of Commerce

The oil industry has come together on legislation setting up an "exploration licensing" program for Alaska, after rare public disagreement between the companies earlier this year blocked the proposal.

"I believe we do now have state and industry consensus," said Ken Boyd, deputy director of the State Division of Oil and Gas.

Last spring, the industry split over a bill proposed by Gov. Walter Hickel that would set up a licensing procedure for exploration on state lands, as a supplement to the existing state oil and gas leasing system.

The plan would allow an oil ex-

plorer to get an exclusive right to explore over relatively large blocks of state land, based on a negotiated commitment to invest specified amounts in drilling and geophysical work.

If a discovery was made, the company could then apply and get a conventional state lease on the property.

The system, common in most countries and used here by Alaska Native corporations on private lands, avoids a major problem companies often have under Alaska's current leasing system, which involves leases of about 5,000 acres. Often, leases over a geologic prospect are held by several companies.

If the prospect is marginal, or in a relatively unexplored area, a company interested in drilling might have con-

siderable problems getting all the lease owners to commit money to an exploration program.

The license proposal avoids that by allowing one company with a new geological theory to propose a plan to the state and gain access to a larger block of acreage, to test several prospects.

Arco Alaska Inc., a major Alaska producer, developed the idea, modeled on similar programs in other countries. In areas with marginal geologic potential, it will speed exploration and the discovery of oil, Arco argued. But most others in the industry opposed it, and the bill went nowhere in the Legislature. Over the summer, Boyd and his staff worked with the companies in developing al-

ternative language that would bring consensus. Unless the entire industry signed off on the deal, Department of Natural Resources Commissioner Harry Noah would not support the bill, Boyd warned the companies.

The latest draft is now being reviewed by Noah, and will be presented by the department at a Nov. 12 meeting of the House Special Committee on Oil and Gas, chaired by Rep. Joe Green, R-Anchorage.

"There's always something in compromise like this that the companies don't like, which gives me a good feeling," Boyd said. "It means no one got all that they wanted. They had to compromise. Everyone supported this thing in broad concept, but argued over the details."

State, industry negotiated differences in exploration proposal

By Tim Bradner
Alaska Journal of Commerce

Some of the biggest differences among the oil companies on state exploration licensing proposals were actually resolved last spring. The tide turned when Arco reluctantly agreed to a version of the bill that excluded existing North Slope and Cook Inlet producing areas from the program.

The change was made by the Senate Oil and Gas Committee when it moved its version of the bill out of committee.

But other problems remained. One was providing for a bond, cash that would be deposited with the state as security that the work promised by an exploring oil company would actually be carried out.

Early versions of the bill required the bond to be the same amount as the investment promised under the work commitment. If a company pro-

posed a \$10 million program over the 10-year life of the license, the cash bond filed with the state would be \$10 million.

Arco pushed that approach vigorously, arguing that with a lot of money at risk in the bond, it would be a very strong disincentive for a company to walk away from its commitment.

Others vigorously opposed the idea. Independents like Stewart Petroleum Co., an Alaska-based company, and even some major companies, proposed a smaller bond that might be more affordable in times of low oil prices and tight cash flow.

The compromise eventually worked out involved an explorer posting a bond each year equal to the amount of the commitment divided by the number of years remaining in the license. Money committed to work that year could also be deducted from the bond, according to Jim Hansen, leasing/evaluations manager for the Division of Oil and Gas.

An area of sharp disagreement between the industry and the Division of Oil and Gas, in which the division ultimately prevailed, involved a requirement for companies to relinquish lands during the license period if they are not exploring.

The latest version of the bill requires 25 percent of the land to be given back in the fourth year of a 10-year license, if a company has not spent at least 50 percent of its promised commitment. After that, the company must give back 10 percent of its lands each year, if the exploration program is not proceeding as planned.

Requiring half the money to be spent by the fourth year, "is an incentive for the companies to get busy and do work early," said Haynes.

Although some of the companies had vigorously opposed the relinquishment requirement, the division strongly supported it.

"There's nothing exotic about it. It's textbook stuff," that is common in

most lands licensing-type agreements, Haynes said, including contracts Alaska Native corporations now have with oil companies.

The division supported the idea because it wanted insurance not only that work would get done, which is encouraged by the cash bond, but also that it would be done aggressively.

What the state didn't want was an agreement that allowed companies to "warehouse" land and wait until the final year before spending money, Boyd said.

The argument made by the companies against the idea, particularly by Arco, was that the provision forced the explorers into a kind of artificial schedule imposed by the government.

The whole idea of licensing, they maintained, was to be able to turn exploration teams loose on a large block of state lands to explore in the most effective manner, which may or may not fit the schedule the state desired.

BUSINESS

Bills aim to speed oil exploration

Licensing, data exchange plans hoped to offset Prudhoe decline

By IAN MADER
The Associated Press

JUNEAU — The Hickel administration has proposed legislation that it says would promote quicker exploration of the state's oil reserves.

One bill would allow oil companies to apply for licenses to explore large tracts at once, bypassing the need to collect enough contiguous smaller tracts at state lease auctions to make exploration practical.

Under Senate Bill 150 and House Bill 199, a company would get a large-area license by committing to do the exploration soon and posting a bond to guarantee the work.

Ken Boyd, deputy director of the state Oil and Gas Division, said auctions often leave several contiguous tracts in the hands of different companies, which would have to team up for exploration. They often do not agree on when to start drilling.

Licensing would remove that delay, he said. "There's no hemming and hawing. You put down your bond and away you go."

Competition would not end under licensing, he said. Once a company applied for a license, other companies could make counterproposals to the state. State officials would choose the best proposal. If the company found oil, it would have the option

to lease the land.

Arco Alaska Inc., the biggest supporter of "exploration licensing," says the idea could help make Alaska more attractive to new oil companies and those that have been leaving the state for foreign prospects.

"We think it will attract new investors by cutting as much as a decade from the time required to find and develop a new Alaska oil field," Arco vice president James M. Davis told the Juneau Chamber of Commerce last week.

BP Exploration (Alaska) Inc. says it

Please see D-6, LICENSING

LICENSING: Hoped to entice more oil firms

Continued from Page D-4

prefers the competitive lease process for known oil-rich areas such as the North Slope and Cook Inlet, but would support licensing for basins in interior Alaska.

Rep. Joe Green, R-Anchorage and chairman of the House Oil and Gas Committee, said a company's support for the idea "will depend how cash-rich they are at the moment."

Arco apparently has the cash. The company says it will spend \$900 million on Alaska exploration in the next five years.

BP recently slashed its Alaska operations and has not announced an exploration spending plan, but has said it will drill three wells this year and take part in a fourth.

Boyd said the legislation is not necessarily intended for the North Slope, and that the natural resources commissioner could say that licensing would only apply in remote basins in interior Alaska.

BP spokesman Tom Williams said the company would not support the bill unless it had more provisions to guarantee millions of acres of unleased North Slope land would not be licensed in large blocks.

"We like the bidding process," Williams said. "In large-block licensing there's enough blanks to be filled in that we just don't know."

Smaller companies have worried that they won't have enough capital to apply for a large-block license, Boyd said. Unless such companies team up with others, they probably should not be drilling in the interior anyway, he said.

"I don't want somebody to go out into a basin and not be financially responsible to do the work," Boyd said. "Unfortunately, Alaska is not a good place for the smaller independents. It's remote, it's large, it's cold."

The commitment to exploration also will prevent speculators from holding potential oil fields for years, Boyd said.

Rep. John Davies, D-Fairbanks, said he's concerned the speedy timetable under licensing might compromise public review that would examine environmental effects and look at alternative uses for the land.

"It seems to me that both Arco and BP have announced increased exploration in the next decade," he said. "I'm skeptical as to whether we really need any incentives."

Under another Hickel proposal, the state would pay up to half of a company's exploration costs on non-state lands in exchange for data that could shed light on the prospects for nearby state land, Boyd said.

Under SB151 and HB200, the state would use that information to market the nearby state land, Boyd said.

"Any information we can get on these strange interior basins, so much the better," Boyd said.

Green said both proposals could help offset the decline in Prudhoe Bay oil production.

"OK, we've driven a lot of oil companies out with unstable taxing," Green said. "These measures say: Look, we're trying to come up with ways of enticing you back into the state."

COOK INLET REGION, INC

March 22, 1993

Representative Joe Green
House of Representatives
Chairman, House Special Committee on Oil & Gas
State Capitol
Juneau, Alaska 99801

Dear Representative Green:

I appreciate the opportunity to present a written testimony regarding HB199 on behalf of Cook Inlet Region, Inc. (CIRI), the Alaska Native regional corporation for the Cook Inlet area. CIRI is owned by approximately 6,500 Athabascan, Eskimo and Aleut shareholders. CIRI's principal lines of business are natural resource development (oil and gas, minerals, coal and timber), real estate, oilfield services, and broadcast radio and television. Today I would like to focus on the area of oil and gas.

CIRI owns and manages 924,000 acres of surface estate and 1.6 million acres of subsurface estate in Alaska, and has been active in Alaska's oil and gas industry for over fifteen years. CIRI and its wholly-owned subsidiary CIRI Production Company hold various royalty and working interests in several producing a prospective oil and gas fields on the Kenai Peninsula and Alaska's North Slope. A primary emphasis of CIRI's strategy for economic growth is the continued development of its natural resource holdings. Such development benefits CIRI and businesses throughout the state. As one example, under the sharing provisions of Section 7(i) of the Alaska Native Claims Settlement Act, CIRI has distributed over \$120 million to other Native corporations across Alaska. Millions more dollars have been injected into the economy in the form of shareholder dividends. Most of these distributions resulted from the production of oil and gas. However, just like the state, CIRI's oil and gas reserves are declining. And like the state, we must find new sources of production if we are to continue our significant economic role.

In light of the changing realities in the oil and gas industry, and world economics, we believe it is both appropriate and advisable for the legislature to consider certain new and innovative approaches to oil and gas leasing and development. Last year, the state took a historic step when lands in the Nuiqsut area of the North Slope were leased under joint agreement between the State of Alaska and Arctic Slope Regional Corporation. We believe there may be other situations in which cross-assignment of interests between the state and Native landowners could substantially enhance the chances for successful leasing and development of both

Statement of Gerald Booth
March 22, 1993
page 2

the state and private lands. Because of CIRI's land pattern on the Kenai Peninsula, we would be particularly interested in pursuing such a concept with the state. CIRI has also worked closely with other private landowners and the state of Alaska in the effort to extend the state's Exploration Incentive Credit program to all lands in Alaska. CIRI supports the comments of the Alaska Federation of Natives regarding HB 200.

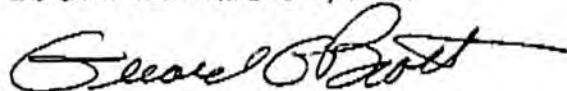
In addition, you have before you today HB199 which would allow companies to explore large, untested blocks of land through an exploration license issued by the state. This is a departure from the traditional competitive leasing approach for state lands, but it is not an unfamiliar concept to Native corporations. For years on our own lands, we have worked with companies under exploration agreements whereby prospective areas could be later converted to lease.

Fundamentally, this concept is market driven, whereby industry would advise the state which lands are of interest, thus potentially reducing the time in which to acquire lands for exploration when capital and expertise ~~is~~ available and focused on a particular area. The concept is designed to supplement, not replace, the state's current competitive leasing program. CIRI supports the basic concept of large block exploration and exploration licensing, and we will be pleased to work with the legislature as you consider and refine the present legislation with respect to areas to be included or excluded, time periods for licensing and leasing, relationship of the program to adjacent landowners, etc.

In closing, I appreciate the opportunity to provide our comments to the House Oil and Gas Committee. Carefully crafted, the legislation currently being considered by the committee can help stimulate additional exploration of Alaska's future potential oil and gas resources. As an Alaska Native corporation, CIRI has a special relationship to Alaska's future. Even in today's highly mobile society, fifty years from now, the majority of our shareholders will still call Alaska home. This is where our economic future must be secured. Thank you.

Sincerely,

COOK INLET REGION, INC.



Gerald G. Booth
Vice President, Energy and Minerals

STATEMENT OF BP EXPLORATION (ALASKA) INC.

TO THE

HOUSE SPECIAL OIL & GAS COMMITTEE

REGARDING

HOUSE BILL NO. 199

March 22, 1993

Mr. Chairman, Members of the Committee. Good afternoon. My name is John Ringstad, and I am Associate Director, Government Affairs for BP Exploration (Alaska) Inc. Thank you for this opportunity to appear before you today to present BP's views on HB 199, the Governor's large-block licensing bill.

HB 199 would make state lands available for oil and gas exploration and development under a very different approach from the system of competitive oil and gas lease sales that Alaska has used since 1959. Under the leasing system, state land is made available in relatively small parcels of not more than 5,760 acres. In contrast, the licensing system proposed in HB 199 would make land available for exploration in blocks of up to 500,000 acres apiece. Instead of bonus bidding, the new licenses would be awarded competitively on the basis of how much exploration work a would-be licensee promises to do. The bidder promising the most work in a license area would win the license for that area. If the licensee makes a discovery, he would have the right to lease the portion of the license area encompassing the discovery. In its basic approach, this new licensing program is very much like the oil and gas "concessions" that most nations around the world employ to get oil and gas exploration and development.

BP supports the idea of large-block licensing for the relatively unexplored areas of Alaska. While BP's exploration focus is on the North Slope and will remain there, we believe that the licensing approach could facilitate the exploration of the so-called "interior basins" in Alaska -- basically, all of the state outside of the Cook Inlet basin and the North Slope. We applaud the Governor and those in his Administration who worked to develop this bill, for breaking out of the "traditional" mindset that 30 years of using the same practice can cause, and for having the willingness to propose a new system that they think will work better than leasing.

However, despite our support for the general idea of large-block licensing for the relatively unexplored areas of Alaska, we *oppose* HB 199 as currently written. We have three specific matters of concern: 1) its application to the North Slope, 2) the oral outcry auction provision and 3) the exemption which allows the warehousing of acreage.

Our first concern is that HB 199 would allow licensing on the North Slope, particularly in the planning areas for the remaining state lease sales scheduled for the Slope. We believe the State's interests would be harmed, not helped, by allowing the currently planned lease sales to be cast aside in favor of a licensing program. Lease sales bring in cash bonuses; the licensing program would not. Unlike lease sales in unexplored areas, which bring in minimum bonuses, the recent state lease sales on the Slope show there is enough interest to make the bonuses there substantial. Thus, to stop using lease sales on the Slope would represent a significant cash cost to the State. For licensing to be justified, therefore, it has to be great enough to offset this cost.

The chief advantages that licensing offers are the possibility of more exploration and earlier exploration, but we doubt that licensing would deliver very much of either advantage on the Slope. There is already more exploration interest on the Slope than anywhere else in the state, and the Slope is likely to end up being just as thoroughly explored under conventional leasing as it would with large-block licensing. Moreover, it is not clear that licensing would bring about exploration on the Slope any faster than conventional leasing would. It is expected that exploration drilling under a licensing program would begin as early as two years after a license is issued. But our Cascade well that we are drilling this year is on land we leased only *two* years ago -- in 1991. We also plan to drill our Yukon Gold well later this year, and it, too, is on a lease issued in 1991. ARCO's Cave Bear well, scheduled to be drilled next year, is on land they leased just last year. So, even though it is sometimes true that exploratory drilling doesn't begin until eight or nine years after a lease is issued, it is also true that much of the current exploratory drilling on the Slope is occurring as soon after a lease sale as it would under a large-block licensing program.

There is one more thing you should consider before letting the Slope be opened up to large-block licensing. Conventional leasing allows companies to come in and bid for leases even though they do not plan to operate the leases

they may acquire. They are, in effect, investors rather than operators. The licensing program, in contrast, gives a tremendous advantage to any companies who are already operators in the vicinity of a license, because they already have a base of operations there and have working knowledge and experience with the area. On the Slope, there are two dominant operators. Is it good state policy to let one, or both, "lock up" the rest of the Slope under a licensing program? Or would it be better to continue letting other companies have a chance for a piece of the action, as they do with conventional lease sales? For BP's part, we are not afraid of having more competition, but welcome it.

I said earlier that BP has three concerns about HB 199, and so far I've only talked about one.

The second concern is about the nature of the auction for a large-block license. HB 199 calls for an "oral outcry" auction -- that is, the bidders are all in a room together and each one keeps bidding higher and higher about how much exploratory work it will do, until finally no one is willing to bid any higher and the license goes to the last, and highest, bidder. This is a singular departure from the way similar "concessions" are offered elsewhere around the world. The usual method is with sealed written bids that are submitted in advance, much the same way bonus bids are submitted to Alaska in its competitive oil and gas lease sales. The system of sealed bids in advance makes everyone bid on the basis of their best view of the prospect, and it is likely to attract more participants in the auction than the "oral outcry." BP prefers sealed bids.

Our third concern is about whether a lease being carved out of a license area counts against the State's limits on how much acreage a company may have under lease at one time. HB 199, at lines 8 and 9 on page 5, specifically exempts such a lease from the acreage limits. We see no reason for the State to give such an exemption.

The acreage limits were enacted as part of the original state Land Act in 1959 in order to prevent companies from "warehousing" large numbers of leases. The State wanted companies to either explore and develop the leases they got, or else surrender them back to the State. This is shown by the fact that leases in an exploration unit or a development unit are not counted against the acreage limit. With a unit, the State knows there is a plan, and has to approve that plan,

either to explore the leases or to develop and produce the leases , depending on the type of unit.

If you think about it for a moment, there is no reason for such an exemption even from a license-holder's point of view. Why would a license-holder be trying to get a lease for part of his license area in the first place? Because he either has found something there or has good reason for believing something is there. But in either case, there is no reason why he cannot put the lease into a unit if he doesn't want it to count against his acreage limits. And if he does unitize the lease, then the State will continue to have assurance that there are real plans for further exploration and/or development for that lease. BP believes a lease being carved out of a license area should count against the acreage limits.

In summary, then, BP supports the general idea of large-block licensing for the relatively unexplored areas of Alaska. But we oppose HB 199 in its present form because it does not deal adequately with the issue of licensing on the North Slope. We are also seriously concerned about the provisions in HB 199 to use an "oral outcry" auction instead of sealed bids, and about its exemption from the anti-warehousing acreage limits for leases carved out of a license area. With corrections in these areas, we would welcome HB 199 as a progressive new approach for encouraging oil and gas exploration in Alaska.

Thank you, Mr. Chairman, for this opportunity to present this statement to the Committee today.

FISCAL NOTE

STATE OF ALASKA 1993 LEGISLATIVE SESSION

No. 1
Bill Version: HB 199
(H) Publish Date: 3/5/93

Revision Date: _____ Dept. Affected: Revenue
Title: Oil & Gas Exploration Licenses and Leases BRU: Revenue Operations
Component: Oil & Gas Audit Division
Sponsor: Governor
Requestor: Governor COMPONENT SERIAL NO. 115

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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REVENUE FUND SOURCE:						
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FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY93) impact: \$ 0.00

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Rod R. Maurant Phone: 465-2300
Division: Commissioner's Office Date: 3/2/93
Approved by Commissioner: Darel J. Rexwinkel Date: 3/2/93
Agency: _____

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Position Paper
Department of Natural Resources
Exploration Licensing Legislation
HB 199 & SB 150

The Exploration Licensing Bill allows the State to offer large tracts of land (up to 500,000 acres) to potential licensees, with the option of later converting part (or all) of the license to lease, contingent upon the successful completion of the required work commitments. Exclusive licenses will be granted to the company submitting the most comprehensive work plan as expressed in dollars of work commitment.

A bond covering the proposed work commitment expense is required, and will be forfeited for that portion of the work that is not completed. The same Best Interest Finding procedures that are currently used for competitive leasing under the state's Five Year leasing program, and the public process that is part of the Finding, remains in-place for exploration licensing. At the end of the license period a lease covering some (or all) of the license area may be awarded.

The Department of Natural Resources will administer this program as it administers competitive lease sales under the existing Five Year Oil and Gas leasing program. The Departments of Fish and Game, Environmental Conservation and Law, as well as other interested local, state and federal agencies, will be involved in the Best Interest Finding. In addition, there will be ample opportunity for public review and comment on the award of proposed licenses, as well as on the terms and conditions of those licenses and any resulting leases.

Governor Hickel's proposal in HB 199 and SB 150 expands the exploration options available in, but does not replace, competitive leasing under the existing Five Year program. Its main purpose is to get companies working in areas of the State that have drawn little (or no) attention under the current leasing program. Similar license/lease programs are offered by most countries worldwide.

The Governor's goal is to get more money "into the ground." The State makes the majority of its income from royalties and severance taxes on oil and gas production, not bonuses and lease rentals. In order to obtain new royalties and severance taxes, we must have new oil being explored for and produced. The only way to find new reserves that may eventually be produced is to have companies actually drilling wells. This bill is intended to expedite the exploration process, which, hopefully, will lead to new commercial discoveries of oil and gas.

Oil and gas exploration always means money and jobs. Likewise, increasing the opportunity to explore and develop new areas can only mean more money and more jobs. Exploring the remaining "underexplored" basins in the state will certainly provide jobs during the exploration phase—jobs for all sorts of people—from geologists to camp cooks. If discoveries are made, more jobs will be created and new revenues will accrue from taxes and royalties. These jobs will be created in geographically diverse areas of the state, contributing to the expansion and diversification of the state's economy.

WALTER J. HICKEL
GOVERNOR



P. O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

48199

March 5, 1993

*The Honorable Ramona L. Barnes
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182*

Dear Speaker Barnes:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill authorizing oil and gas exploration licenses for tracts of state land up to 500,000 acres in size and providing for subsequent leasing of some or all of the acreage subject to the license.

The bill is designed to encourage the exploration and development of areas within the state with undetermined oil and gas potential. In contrast to the provisions of the state's existing competitive oil and gas leasing program, the bill would allow the state to issue licenses covering relatively large tracts to licensees based upon their commitment to perform certain exploration programs, the monetary value of which has been predetermined. The bill is not intended to replace the state's competitive leasing program; rather, it is intended to provide an effective alternative to encourage exploration in those areas that traditionally have not attracted the interest of explorationists under the state's current leasing regime.

Under the bill, either the state or a prospective licensee could nominate an area of unidentified oil and gas potential, consisting of reasonably compact and contiguous acreage that should be subject to a license. The commissioner of natural resources would be authorized to impose reasonable work commitments on the licensee with respect to the license area. Subsequent to the successful completion of the predetermined work commitment, the licensee could convert portions or all of the

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COMMITTEE COPY

The Honorable Ramona L. Barnes

March 5, 1993

Page 2

HB 199

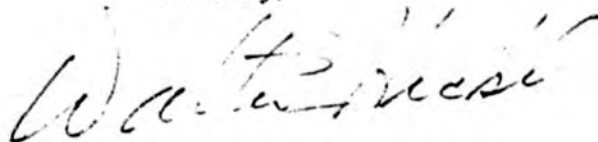
acreage to one or more leases, each not to exceed 30,000 acres in size. The imposition of the required work commitment and the requirement to pay an annual rental on acreage subject to lease are together intended to discourage warehousing of acreage that the licensee does not intend to explore or develop. The commissioner is authorized to include reasonable conditions and obligations in the leases arising from conversion of licenses.

A license proposal would require public notice and the opportunity for competing proposals by other prospective licensees as well as the opportunity for public comment. The commissioner of natural resources would be required to make a finding that issuing a license is in the best interest of the state.

The exploration and potential development of Alaska's remote and underexplored basins will be further encouraged by the adoption of the licensing and leasing methodology contained in this bill.

I urge your prompt and favorable consideration of this bill.

Sincerely,

A handwritten signature in dark ink, appearing to read "Walter J. Hickel", written in a cursive style.

Walter J. Hickel
Governor

ARCO Alaska, Inc.

Exploration Licensing Testimony

Mr. Chairman, members of the House Oil and Gas Committee, my name is Jim Davis: I am Senior Vice President of Exploration for ARCO Alaska, Inc..

I am pleased to testify in support of HB 199, Exploration Licensing. We believe that this supplement to the state's leasing program can invigorate exploration for oil and gas. It can do this by substantially reducing the time required to acquire secure title to enough land to justify exploration activities while meeting all environmental laws and regulations.

I know that Mr. Jim Eason, Director of the Oil and Gas Division at the Department of Natural Resources, provided the committee with a very complete review and analysis of the legislation at the hearing last Tuesday. Therefore, I would like to pick up from there and address three points. First, I would like to review how this bill came to be. I think that this will help us see the policy choices facing the state. Next, I would like to supplement the remarks you heard last week from DNR about the contents of the bill. Finally, I would like to address the main objections that I

have been hearing and explain why they don't change our support for this bill.

Development of the Exploration Licensing Bill

A little over a year ago, I sat in joint hearings before this body and introduced the concept of exploration licensing. Many of you may recall that there was general concern then that exploration in Alaska was declining and that oil companies were scaling back or ending their operations; presumably in favor of more attractive overseas prospects. I must admit that I was also feeling a sense of loneliness as I tried to interest prospective partners to join with ARCO in drilling Kuvlum in the Beaufort Sea; we now see that it turned out to be a discovery.

At that time, the legislature asked us to talk about ways in which exploration in Alaska could be stimulated. As we developed ideas, we considered various options. Standing back and looking at exploration in Alaska, we recognized that it is a very costly and high risk venture. We thought about ways the state could reduce our direct exploration investment. It was tempting to think of tax credits, because they have proven in other countries, such as Canada, to be very effective in stimulating drilling. However, we concluded that the state would not be able to

bear these upfront costs, especially in light of the fiscal gap crisis it is facing.

The other alternative that we examined was reducing the time required to find and develop oil. We then focused on the state leasing program. Here we found real possibilities to shorten exploration time. For example, under the present leasing system, it can take five to ten years to accumulate enough of a land position to justify the high expense of an exploratory well. This puts Alaska at a competitive disadvantage with foreign countries, and this is one reason we see other oil companies leaving Alaska and investing abroad. We need now to level the playing field. Two activities which take time are waiting first for a prospect to move through the five year leasing schedule, and then developing a consolidated ownership out of the patchwork of individual lease ownership covering the prospect. Even more uncertain is consolidation of ownership on adjacent leases after a discovery. So we believe that speeding up the process of securing title would help the state's goal of invigorating exploration.

We found some interesting ideas in methods used by many foreign countries. In these countries, development rights are given after government chooses the specific work proposal that will most likely yield discovery and development.

The basic concept for exploration licensing in Alaska came from this approach. We felt that the existing lease process could be supplemented with licensing based upon work commitments, public disclosure, and competition. By the way, this approach has also been used in the U.S. as well as other countries, so this is not an untested concept.

Key Aspects of the Bill

Let me next supplement Mr. Eason's testimony by highlighting the major aspects of the bill.

An exploration license is applicable to unleased land. A prospective licensee (or the state) identifies an area not to exceed 500,000 acres and proposes a work program, expressed in dollars, to be conducted over a time period of not more than 10 years. If the state does not reject the proposal, it then solicits competitive proposals. Since the original proposal is a matter of public record, and in order to not put the original proposer at a disadvantage, an oral auction is held to determine the prospective licensee that is willing to make the greatest work commitment, again, expressed as total dollars. During this process, the state makes a best interest finding before awarding the license. At the time that the license is awarded, the terms of the subsequent leases are established. In addition, the licensee posts a performance bond that reverts to the state for all

committed work not completed by the end of the license term. The bond is critical in that it provides the incentive to do real work.

After getting all of the normal environmental and other permits, the new licensee conducts the work. Upon completion of the work, the licensee, at its option, converts all or part of the license area to appropriate sized leases.

This conversion to smaller leases is critical to keeping licensing from becoming a vehicle for land speculation. It allows the state to take back leases after the primary term expires, where no development potential is shown. Therefore, the leases would be administered just as they are today. The bill provides for leases acquired through licensing to not be subject to the current 500,000 acre chargeability limits.

To summarize, the bill is really quite simple in its concept. Its main purpose is to shorten the time required to explore. It gives a secure land position in return for a bonded work commitment. It relies on market competition to prevent abuse or giveaways. And it provides protections to the state by allowing the Commissioner to reject any proposal and revert to the existing leasing program.

Major Objections to the Bill

Let me now respond to the major arguments that I have heard against this bill. Foremost, I can't understand why others would not see that it's in the State's interest to get exploration moving: to find and develop oil and gas as quickly as possible. In that light, maybe this bill should be titled the Exploration Work Commitment Bill. That title captures for me the fact that while land is being acquired, the real effect of licensing is to get exploration work done. All of the criticisms or amendments that I have heard serve to weaken or dilute the goal of speeding up exploration. Let me illustrate by looking at these objections one at a time.

I hear some say that the leasing system is working fine and that no license bill is needed. Yes, leasing does happen and clearly the state and the industry have benefited. But I would rather say that benefits have not come because of leasing: discovering and developing Prudhoe, for example, had much more to do with the quality of the reservoir than the effectiveness of the leasing system. Further, revenues to the state from bonuses and rental have amounted to less than 1% of total revenues from 1981 through 1992. Clearly the state benefits most from discovery and development. To me, a way to supplement the lease system with a faster process such as licensing is needed.

A more specific complaint is that the bill should exclude broad portions of the North Slope and Cook Inlet from licensing. The reason, I'm told, is that licensing is only needed in "frontier" areas. Let me offer two thoughts on this. First is that we agree that this should be a frontier area bill: but we think that licensing should be available for both intellectual as well as geographic frontiers. Our Cook Inlet discovery, the first in 25 years, is a good example of this. Most basins go through cycles of discoveries. Cook Inlet is now in its second cycle. We rethought the geologic concepts in Cook Inlet and by applying them found oil in an area that industry had all but abandoned. There is land in both the Cook Inlet and on the North Slope that has been leased and returned to the state, or offered for sale and not bought. These areas are intellectual frontiers and when new concepts are developed, these areas should be available for licensing.

The second thought is that the Arctic North Slope is a particularly poor choice for blanket exclusion. This is because new sources of oil are needed to keep TAPS running as long as possible. Crude rate through TAPS will be declining significantly over the next ten years and modifications such as shutting down pump stations will be needed. Over time, it will be more and more expensive to bring TAPS capacity back up. New discoveries will have

to bear those costs. As time proceeds, discoveries will have to be larger and larger to justify TAPS investments. I just don't think that we can expect to find larger and larger fields. We must try to find as many smaller sized fields as soon as possible to maximize the economic efficiency of TAPS and to keep rate from declining as quickly. There is an added benefit that the longer TAPS operations continue, more oil will be produced from existing fields like Prudhoe and Kuparuk. Exploration Licensing is especially applicable on the North Slope because we have only a limited window of opportunity.

The performance bond has also been criticized as being too onerous. But it would be a mistake to provide relief from bonding. The reality is that Alaskan exploration is high risk and high cost. Nothing has changed for players without the financial ability or interest in licensing. They can continue to participate through existing leasing. Or they can form joint ventures with others and seek licenses. Loosening the bond requirement encourages speculation, not exploration. And holding land without exploring is of no benefit to the state.

The oral outcry form of bidding has been criticized as not being viable. We see oral auctions as protection for the person who submits the initial proposal, which may be subject to partial disclosure. The originator may be

disadvantaged during bidding by competitors having that information. The argument against oral auction is that it will be too complex. But it is really fairly simple. After the state has solicited and evaluated proposals, it develops a common basis for the bidding and the competitors bid a work commitment in terms of dollar amount. There really is not anything unworkable here. Also, this concept is not new, its been utilized in numerous countries for many years.

As I mentioned earlier, one of the fundamental protections for the state and the industry is the existence of market competition. One of the most disturbing arguments I've heard against this is that some companies will not use licensing because they have only limited funds for Alaska. In essence, these people are saying that the state should not speed up the pace of exploring for and discovering oil until they are prepared to reinvest in Alaska. This is probably because they have better foreign opportunities. This demonstrates that Alaska is at a competitive disadvantage as I mentioned earlier. Exploration Licensing will help level the playing field by making Alaska more attractive for exploration.

Critics of this legislation are quick to point out that ARCO has committed nearly 1 billion dollars to an active, ongoing 5-year exploration program and that exploration

licensing is not fair to other companies who have not made such commitments. But we should remember that the goal of this legislation is to have a process which speeds up exploration and which creates competition for making work commitments. Just the introduction of this bill has created a climate of competition within the industry. And that's good for the state. I presume that other companies will seek and win licenses. I hope that ARCO can also benefit from licensing. But I also hope that the state benefits from licensing, because that will mean that exploration in Alaska has been reinvigorated.

I would be happy to respond to any questions that you might have.

State of Alaska Revenues

\$ Millions

<u>Fiscal Year</u>	<u>Oil & Gas Severance Tax</u>	+	<u>Oil & Gas Gross Royalties</u>	+	<u>Lease Bonus Sales</u>	+	<u>Petroleum: Other Tax & Settlements</u>	=	<u>Total Petroleum Revenues</u>
1959-69	9		29		96		89		223
1970	8		19		900		12		939
1971	11		24		0		12		47
1972	11		25		0		12		48
1973	12		24		4		11		50
1974	15		29		25		12		80
1975	27		40		1		23		90
1976	28		43		0		320		392
1977	24		46		0		421		491
1978	108		199		0		185		492
1979	174		332		0		399		906
1980	507		918		457		720		2,601
1981	1,170		1,502		14		1,011		3,697
1982	1,582		1,553		10		838		3,983
1983	1,494		1,447		73		443		3,457
1984	1,393		1,409		17		418		3,237
1985	1,389		1,390		24		321		3,124
1986	1,108		1,098		70		753		3,029
1987	649		592		1		337		1,578
1988	819		954		11		607		2,391
1989	699		819		23		533		2,074
1990	1,002		1,004		0		385		2,391
1991	1,285		1,293		38		690		3,306
1992	1,053		936		5		628		2,622
	<u>14,573</u>		<u>15,724</u>		<u>1,770</u>		<u>9,181</u>		<u>41,248</u>

Source: Alaska Dept. of Revenue, Revenue Sources Book, Fall 1992

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